

Falk: Governor failed utility's board

By Tommy Howard, staff writer

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Carl Falk says he is "heavy-hearted" with disappointment over how Gov. Mark Sanford has failed to provide leadership in the Santee Cooper controversy. The Litchfield Beach resident and former board member for Santee Cooper was appointed to the board by Sanford in December. That was after Sanford fired Graham Edwards as chairman and replaced him with Guerry Green of Pawleys Island.

This past week, Sanford withdrew both local men's nominations as he and the General Assembly wrangled over the board.

Sanford called Falk earlier and asked him to go through the confirmation process in the state Senate. Once confirmed, Sanford told him, he would like Falk to step down from the board so he could appoint Green to the Georgetown County seat. Falk told the governor no, he could not participate in that sort of plan.

"Mark felt very uncomfortable that I did not adopt his point of view," Falk said.

"My fiduciary responsibility is to develop the Santee Cooper point of view to benefit (the utility) and the ratepayers, and not just one individual."

Falk has been a supporter of conservative causes and of Sanford in his run for governor of South Carolina. He hesitated to talk with the Times about the controversy surrounding the South Carolina Public Service Authority, the formal name for Santee Cooper.

Follow the money

Talk show host Rush Limbaugh often says "follow the money" if you want to know why people do things.

Santee Cooper board members receive a \$10,000 per year stipend. After his appointment to the board, Falk set up his stipend to be "direct deposited" to the Falk-Griffin Foundation. That's a group he and his wife, Marcia, established that is dedicated to "strengthening the family through Jesus Christ." Falk intended that his service on the utility board would be for the good of South Carolina and Santee Cooper. By using direct deposit to the charitable foundation, he gets no money himself from Santee Cooper.

Troubling differences

Falk's heavy heart comes from differences. He has a strong philosophical agreement with Sanford on many issues, but disagrees on how the board should operate and the governor's leadership style.

A friend and supporter of both Sanford and Green, Falk believes the governor has done too much to "micro-manage" the board. Some board members, in turn, have tried to micro-manage the operation of Santee Cooper.

"The board has had a difficult time acting as a unified body with a unified purpose," Falk said. Some members have acted more as spokesmen for the governor's views than as a true board representative.

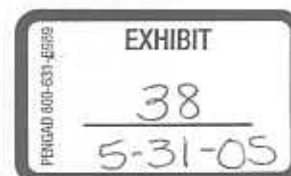
Throughout a nearly two-hour interview, Falk said he agreed to talk with the Times because of the philosophical differences, not because of any personal feelings against anyone. He would not name any particular board members, for instance, when talking about who might have been working too closely in espousing Sanford's views.

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"The governor has a very strong ideology on public power," Falk said. He doesn't believe that the state should be in the business of providing electrical service when private companies such as Duke, SCANA and others can do so. As he got more involved with service on Santee Cooper's board, Falk said it looked more like Sanford picked members and issues that would act like a hand grenade tossed into a crowd. That creates so much chaos and change in the organization that it becomes almost dysfunctional, he said. Santee Cooper itself is well-managed, Falk noted. His comments relate to the board.

Not typical board actions

Actions that bothered Falk were ones that were not typical of what a board member would normally do. He referred to such things as getting involved in contacting a bank doing a study on the value of Santee Cooper without the rest of the board's knowledge.

The most recent study, prepared by Credit Suisse First Boston, set the value of the utility and its assets at more than \$5 billion. Initiated under past chairman Graham Edwards, Falk said the study really didn't contain any new information and wasn't worth its \$150,000 cost.

"We received a very lightweight report for that amount of money," he said.

The "hand grenade" approach pits board members against one another, Falk said, "as opposed to board members who set policy, operate in an advisory capacity and help build the organization."

With Sanford's strong viewpoint that the state doesn't need to be in the business of providing public power, it almost appears to Falk that he tried to cause near-revolutionary change in Santee Cooper.

Hodges set precedent

Much of the wrangling over the utility comes in the wake of Sanford's replacement or firing of Edwards and several other board members. That, in turn, follows former Gov. Jim Hodges' firing of John Rainey as chairman of the board.

"Prior to Gov. Hodges, governors would appoint board members (to a seven-year term) and allow them to serve their terms with essentially no heavy-handedness on the governor's part to influence board members.

"I think Gov. Hodges did a disservice to Santee Cooper by the wholesale replacement of board members," Falk said.

Because of the precedent set by Hodges, Sanford didn't feel like there was a problem with naming new board members.

"The trouble is, it did not end there," Falk said. "There was too much influence from the governor's office on board members."

The board members have been getting a lot of attention, he continued, "but perhaps the root cause is the leadership done by the Governor or failure thereof."

Report 'almost worthless'

The Credit Suisse study was done without the knowledge of all board members, and was initiated before Falk was appointed. "It was not a sanctioned board activity," he said.

Overall, he said, most of the 11 board members were not aware how involved a few were in the study.

"I accepted at the time the denials by board members and the governor that it was not being done for the privatization of Santee Cooper, but more as a look at its performance.

"But, when you read the report, it was obvious that it was initiated with the intent of selling Santee Cooper," Falk said.

"I felt misled or betrayed once the report came out."

Since the General Assembly overrode Sanford's veto last Wednesday of the changes made that reduce the governor's control over board appointments, member Keith Munson resigned. He was among the board members who were highly criticized by a state Senate Judiciary subcommittee for the depth of his

involvement in the Credit Suisse report, along with Green and Richard Coen. Munson said he was disgusted with the legislation and that he didn't want to subject himself or his family to the possibility of personal liability for his actions as a board member. That's among the provisions of the legislation. "Frankly, after reading the (Credit Suisse) report, the governor had put Santee Cooper through unnecessary turmoil," Falk said. "If he had admitted his goal, and that he was wrong to do it," people might have viewed Sanford's actions differently, Falk said. The report acknowledges that it doesn't take into account the impact on major customers that the sale of Santee Cooper would have. Those customers would primarily be the state's electric cooperatives. Under state law, Falk said, the co-ops could buy Santee Cooper or they could cancel their contracts if it were sold. Without those customers, the value of Santee Cooper would be much less. By not including that information or analysis, "The report and its findings are almost worthless."

Revenue sharing

Falk and Sanford had fundamental disagreements on how much money Santee Cooper ought to give back to the state. Since the utility is owned by South Carolina, Sanford and others believe it should give more revenue to the state than the one percent it has historically provided. For the governor, five or six percent of revenues would be appropriate because that's how much investor-owned utilities pay in corporate income and other taxes. Others believe that since the state didn't provide money to build and develop the utility, it shouldn't get a greater percentage of revenue. Any such increase would be paid for through increases in utility rates, which Falk and others believe would be unfair to ratepayers or customers of Santee Cooper. The higher figure that Sanford wanted would amount to the property taxes that investor-owned utilities pay to counties. With that money going to the state under the governor's proposal, Falk said, local government entities would still not benefit from those funds. Since the state-owned utility doesn't pay property taxes, it is able to charge less for its electricity. In turn, the utility is able to put money into economic development in the areas it serves. "If it paid more, it would cause a major rate increase to customers and would be a major impact," Falk said. "If in fact we were going to pay that extra four or five percent, it should go to the counties, not the state. What the governor is asking is blatantly wrong," Falk said. In the same way, he continued, if the utility sells what is currently excess property, the money should not go to the state but instead should be used either to benefit local government or help reduce borrowing needs for Santee Cooper. Over and over again, people involved in planning and looking to the future say that growth is coming, and much of that growth will occur in coastal areas of South Carolina. Any such growth will require more power generation, which the land or money from land sales could help. A good example of economic development is the April announcement that Eagle Materials/American Gypsum will build a wallboard plant at the Winyah Generating Station near Georgetown. Green said that Commerce Secretary Bob Faith asked that Santee Cooper help bring the industry here by providing in-kind services. That was done and was a key element in securing the new industry for Georgetown County. Falk said the board discussed the plan. It is very involved in economic development. Of the 50 states in the union, Falk said about five or 10 have public power companies similar to Santee Cooper.

Legislative oversight

When the General Assembly passed and then overrode Sanford's veto of a bill

reducing the governor's control, Falk thought it was a good idea.

The bill that passed and is now law has come a long way from the original legislation, he said.

"Philosophically, I don't think there should be a co-op member on the board.

But, there are two now. There was a majority," Falk said.

While Munson found director's liability to be a major flaw in the legislation, the current provisions are much better than what was in earlier versions, according to Falk.

"I really like it that terms are terms." That, of course, is a direct reference to Hodges' and Sanford's removal of board members.

"You cannot have a functioning board that has members removed out of cycle," he said.

Another section of the bill that he favors sets the amount of contribution by Santee Cooper to the state at one percent.

"As a whole, I support the legislation," Falk said.

A new provision sets up a screening committee to review the background and qualifications of people for the board. The governor will have to select a nominee from that committee, and then the Senate Judiciary committee would vote to confirm the person.

Why would it be a problem for the nominee to be screened? Falk asks.

Following Sanford's three-page veto message of the legislation, both houses of the General Assembly overrode by near-unanimous margins, Falk said.

Heavy-hearted

An engineer by trade and training, Falk worked at building and managing power plants for 20-plus years. When he attended his first Santee Cooper board meeting, it was like a family reunion, he said in early January.

After less than six months on the board, however, he's heavy-hearted.

He and Marcia both supported Sanford's political campaign financially.

Falk served on the governor's MAP (Management, Accountability and Performance) Commission and a follow-up group looking at analyzing and restructuring state government.

One of the goals of the restructuring effort was to get more authority for the governor to run the executive branch of state government.

"But, with that authority it presupposes responsibility. I don't think we've had that with respect to Santee Cooper," Falk lamented.

There's been a lot of focus on board members, he said, and a lot of that attention they have brought on themselves.

However, "Even the governor's defense of those individuals leads me to believe if he's not leading their actions, he's at least supporting those actions."

The new legislation gives Falk hope that will change.

Both members of the General Assembly and Santee Cooper have accused each other of micro-managing the Santee Cooper board.

"I do not believe S.573 (the legislation) would have been necessary or come into play if the governor had not been trying to micro-manage Santee Cooper," Falk said.

The result of Sanford's actions is the creation of a Balkanized board not operating as a unified whole, he continued.

"Because I share a different perspective from the governor, he withdrew my nomination."

The state Senate wrote in a letter to Sanford that Falk is "eminently qualified ... who has served admirably" on the Santee Cooper board. They wanted to confirm Falk's nomination, but Sanford changed his nomination from being on hold to being withdrawn.

"I have no ill will towards Guerry (Green) at all. This is not about me, not about Guerry. It's about what's best for Santee Cooper," Falk said.

He talked with Sanford several times over the last few weeks. "I have no doubt he understands my point of view," he said. "He's not comfortable hearing something different."